



STATE OF IOWA

IOWA CAPITAL INVESTMENT BOARD
G.R. NEUMANN, CHAIR

February 4, 2008

The Honorable Chester J. Culver
Governor of Iowa
Statehouse

Michael Marshall
Secretary of the Senate
Statehouse

Mark Brandsgard
Chief Clerk of the House
Statehouse

Dear Governor Culver, Mr. Marshall and Mr. Brandsgard:

Enclosed is the annual report of the Iowa Capital Investment Board submitted in accordance with Iowa Code section 15E.46. This includes a listing of all qualifying businesses and community-based seed capital funds which have been approved by the Board, along with the number of tax credit certificates and the amount of tax credits issued by the Board through December 31, 2007. These tax credits were authorized by 2002 Iowa Acts, House File 2271. In addition, information is provided in this report for qualifying venture capital funds, including the number of tax credit certificates and the amount of tax credits issued by the Board. These tax credits were authorized by 2002 Iowa Acts, House File 2586.

As noted in the report, the Board strongly recommends that legislation be passed during the 2008 legislative session to extend the tax credit program authorized by 2002 Iowa Acts, House File 2271. The Board finds that this is needed to continue the effort to promote venture capital and economic development activities in Iowa, which was the legislative intent of this program when it was enacted as stated in Iowa Code section 15E.41.

As required by Iowa Code section 7A.11A, one printed copy and one electronic copy will be delivered to the Secretary of the Senate and the Chief Clerk of the House.

Respectively submitted,

G.R. Neumann
Chair
Iowa Capital Investment Board

Enclosures

IOWA CAPITAL INVESTMENT BOARD 2007 ANNUAL REPORT

BACKGROUND

The Iowa Capital Investment Board (“Board”) was established in 2002 by an Act of the General Assembly (2002 Iowa Acts, House File 2078). The Board is created as a state governmental board. The purpose of the Board is to mobilize venture equity capital for investment that will result in a significant potential to create jobs and to diversify and stabilize the economy of the state of Iowa.

The Board consists of five voting members and three nonvoting members. The five voting members are appointed by the Governor and subject to confirmation by the Senate. One nonvoting member is appointed by the Majority Leader of the Senate, one nonvoting member is appointed by the Minority Leader of the Senate, and one nonvoting member is appointed by the Speaker of the House. The Board is a public board subject to public notice and open meetings.

The primary duties of the Board include the following:

- 1) Develop a system for issuance, registration and authorization of tax credits for investments in qualifying businesses and community-based seed capital funds as provided in Iowa Code section 15E.43. This program provides for a tax credit equal to 20% of the equity investment in a qualifying business or community-based seed capital fund.
- 2) Establish a system for the issuance and redemption of tax credits for investments in venture capital funds as provided in Iowa Code section 15E.51. This program provides for a tax credit equal to 6% of the equity investment in a venture capital fund.
- 3) Establish criteria and procedures for the issuance, transfer and redemption of contingent tax credits for investments made in the Iowa Fund of Funds administered by the Iowa Capital Investment Corporation as provided in Iowa Code section 15E.66.

ACTIVITIES DURING 2007

The Board held meetings in March, June, September, November and December 2007. During 2007, nine qualifying businesses, three community-based seed capital fund and no venture capital funds were certified by the Board. A list of the qualifying businesses, community-based seed capital funds and venture capital funds that have been certified by the Board are attached to this report. In addition, two qualifying business applications were denied.

TAX CREDIT CERTIFICATES

Qualifying Businesses and Community-Based Seed Capital Funds

The tax credits for the qualifying businesses and community-based seed capital funds are limited to \$10 million, and cannot be taken until 3 years after the investment was made. For example, any

investments made in 2007 that qualify for the tax credit cannot be claimed until the 2010 tax year. With the passage of 2005 Iowa Acts, House File 831, tax credits will be issued until the total \$10 million cap is reached, and no more than \$3 million of tax credits can be issued in any fiscal year. Tax credit certificates were issued during the 2007 calendar year as set forth below, with most of the certificates relating to investments made either late in 2006 or during 2007.

	Tax Credits Issued	Dollar Amount of Tax Credits
Investments made in 2003	5	\$27,500
Investments made in 2005	60	\$19,002
Investments made in 2006	353	\$1,061,264
Investments made in 2007	<u>876</u>	<u>\$2,130,133</u>
Totals	1,294	\$3,237,899

It should be noted that the total tax credits issued in calendar year 2007 of \$3,237,899 include tax credits issued in both the fiscal years ending June 30, 2007 and June 30, 2008. The amount issued for each fiscal year has not exceeded \$3 million.

As of December 31, 2007, there was \$9,971,000 of tax credits issued for qualifying businesses and community-based seed capital funds, which leaves only \$29,000 of tax credits remaining to be issued. Applications have already been received in early 2008 for the remaining \$29,000 of credits.

Venture Capital Funds

The tax credits for venture capital funds are limited to \$5 million, and cannot be taken until 3 years after the investment was made. There is no cap per fiscal year regarding these credits. Tax credit certificates issued during the 2007 calendar year are set forth below, with all of the certificates relating to investments made during 2006.

	Tax Credits Issued	Dollar Amount of Tax Credits
Investments made in 2006	12	\$30,900

As of December 31, 2007, there was \$2,094,000 of tax credits issued for venture capital funds, which leaves \$2,906,000 of tax credits remaining to be issued.

A log listing the total of tax credit certificates issued to investors of each qualifying business, community-based seed capital fund and venture capital fund is attached to this report.

Iowa Fund of Funds

A contingent tax credit certificate totaling \$36 million was issued in January 2008 relating to investments in the Iowa fund of funds. This replaces the \$12 million contingent tax credit certificate that was issued in 2005. More information on activity related to the Iowa funds of funds can be found in the annual report filed by the Iowa Capital Investment Corporation.

FUTURE ACTIVITY AND CONCERNS

The Board believes that capital formation in Iowa has been significantly benefited by the availability of the tax credits. The Board believes the Qualifying Businesses which have been registered and the existence of a venture capital infrastructure as evidenced by the Community-Based Seed Capital Funds and Venture Capital Funds which have registered will benefit the State of Iowa in the future. As noted previously, \$9,971,000 of the total of \$10 million of available tax credits have been issued through December 31, 2007, and applications have been received for the remaining \$29,000 of tax credits available. Therefore, the Board cannot issue any additional tax credits for investors in qualifying businesses and community-based seed capital funds. In addition, the Board notes that there has been essentially no activity related to the venture capital program during 2007, in that no new applications were received during 2007 and no applications for investments made in venture capital funds during 2007 were received. This will lead to very little activity for the Board over the next several months.

The Iowa Capital Investment Board is recommending that the 20% tax credit program for investments in qualifying businesses and community-based seed capital funds be extended by the Iowa legislature during its 2008 session, with some modifications. The specific recommendations are set forth below:

- Provide for an additional \$3 million of tax credits beginning with the fiscal year beginning July 1, 2008.
- Repeal the 6% tax credit program for investments in venture capital funds. This program is not needed to motivate institutional investment in venture funds and has had a limited effect in increasing the amount of capital to be invested.
- The remaining unused venture capital credits, which totals \$2,906,000, would be used to fund the \$3 million extension of the qualifying business and community-based seed capital program.
- Amend the restriction to the net worth requirement of a qualifying business from the current limit of \$10 million to \$5 million.

In addition, the Board believes that there is a gap in venture capital funding in Iowa after the time start-up investors are involved, and before larger venture capital firms get involved. The Board is recommending that a statutory change be made in the economic development region revolving fund tax credit set forth in Iowa Code section 15E.232, which is capped at \$2 million per year but is currently not being utilized. The Board recommends that a statewide angel co-investment fund be considered an economic development region, which would allow investors in a statewide angel co-investment fund be eligible for a 20% tax credit. This would address the funding gap between start-up investors and venture capital firms. The total credit for investments in this statewide fund would be capped at \$10 million in the aggregate, which would allow for up to \$50 million in investments into this fund.

SUMMARY

As noted previously, the Board will have very little future activity unless the Iowa legislature provides for additional tax credits for the 20% tax credit program for investments in qualifying businesses and community-based seed capital funds. The Board strongly urges that legislation be passed during the 2008 legislative session to extend this 20% tax credit program to continue the effort to promote venture capital and economic development activities in Iowa.

ICIB APPLICATION LOG - VENTURE CAPITAL FUNDS

Venture Capital Fund	Status	Credits 2005	Credits 2006	Credits 2007	Credits 2008	Credits 2009
AAVIN Equity Partners I, LP	Approved 6/03	200,448.00		93,825.00	133,740.00	97,223.16
North Iowa Venture Capital Fund LLP	Tabled 10/03					
Iowa First Capital Fund LP	Approved 12/03		384,600.00			
West Wind LLC	Approved 9/04				609,000.00	
NLG Investors LLC	Approved 11/04			91,800.00		
Iowa First Capital Fund II, LP	Approved 9/06					462,600.00
NLG Series "C," LLC	Approved 12/06					20,400.00
Iowa Lakes Capital LLC	Tabled 3/07					
Total		200,448.00	384,600.00	185,625.00	742,740.00	580,223.16

**ICIB APPLICATIONS LOG – QUALIFYING BUSINESSES
AND COMMUNITY-BASED SEED CAPITAL FUNDS**

<u>Date Received</u>	<u>From</u>
1 12/31/02 Approved 2/24/03 Rescinded 9/2/04	Brain Fingerprinting Laboratories, Inc. Ernest Robson, III, President 108 West Palm Drive Fairfield, IA 52556
2 01/02/03 Approved 2/24/03	Proplanner, Inc. Dave Sly, CEO & President 2321 North Loop Drive Ames, IA 50010
3 01/02/03 Approved 2/24/03	Sciengistics, LLC Peter Porto, President 300 SW 5 th Street, Suite 200 Des Moines, IA 50309
4 01/02/03 Approved 2/24/03	Emerging Growth Capital Fund, LP Gregg Barcus, President 500 SW 5 th Ave., Suite 200 Des Moines, IA 50309
5 01/02/03 Approved 2/24/03	Des Moines Technology Business Accelerator, LLC (dba Emerging Growth Group) Gregg Barcus, President 300 SW 5 th St, Suite 200 Des Moines, ,IA 50309
6 01/03/03 Approved 2/24/03	Newsletter Ease, LLC Thomas Hamilton, CEO 300 SW 5 th St., Suite 200 Des Moines, IA 50309
7 01/03/03 Approved 2/24/03	Web Interactive Solutions, LLC George Wood, President 300 SW 5 th St. Suite 200 Des Moines, IA 50309
8 01/06/03 Approved 2/24/03	Lightwaves Systems, Inc. Phil Kennedy, President & CEO 1131 Wenig Road NE Cedar Rapids, IA 52402

- 9 01/28/03 **Ames Seed Capital LLC**
Approved 2/24/03 David Maahs, Secretary
1601 Golden Aspen Drive, Suite 110
Ames, IA 50010
- 10 02/20/03 **Harvest Services, Inc.**
Rejected 6/9/03 Joseph Meshi, CEO
3076 99th St.
Des Moines, IA 50322
- 11 03/03/03 **Reality Sports Entertainment, Inc**
Approved 6/9/03 Jack E. (Cactus Jack) Barringer
3203 Greenwood Circle
Ames, IA 50517
- 12 03/31/03 **Phytodyne, Inc.**
Approved 6/9/03 Joe Leafstedt, Chief Operating Officer
2711 South Loop Drive, Suite 4400
Ames, IA 50010
- 13 03/31/03 **Phasient Learning Technologies, LLC**
Approved 6/9/03 Paul Juffer, Member
3737 Woodland Avenue, Suite 200
West Des Moines, IA 50266
- 14 03/31/03 **Full Partner, LLC**
Approved 6/9/03 Scott Hickey, CEO & President
2280 W. Tyler Ave., Suite 204
Fairfield, IA 52556
- 15 03/31/03 **Combisep**
Approved 6/9/03 Dr. Shelley Coldiron, CEO
2711 South Loop Drive, Suite 4200
Ames, Iowa 50010
- 16 05/14/03 **Prairie Logic, Inc.**
Approved 6/9/03 Joe Stevens, CEO
209 Main Street
Ames, Iowa 50010

- 17 6/13/03 **Eastern Iowa Angel Investors, LLC**
Approved 12/18/03 Joseph E. Peterson, Secretary
2501 Sugar Bottom Rd.
Solon, IA 52333
- 18 8/20/03 **North Iowa Venture Capital Fund, LLC**
Approved 10/31/093 Robert H. Lembke
North Iowa Area Community College
John Pappajohn Entrepreneurial Center
500 College Drive
Mason City, IA 50401
- 19 8/29/03 **Cedar Valley Venture Fund #1**
Approved 12/18/03 Katherine Cota-Uyar, Program Manager
John Pappajohn Entrepreneurial Center
University of Northern Iowa
Cedar Falls, IA 50614-0130
- 20 10/30/03 **Waters Hot, Inc.**
Approved 12/18/03 Kevin Flammang, President
3480 440th Street
Orange City, IA 51041
- 21 11/13/03 **MagnaLynx Inc.**
Approved 12/18/03 Scott A. Irwin, President & CEO
1606 Golden Aspen Drive, Suite 102
Ames, IA 50010
- 22 03/12/04 **ANE Technology Services**
Approved 9/02/04 Joel Walker, CEO
5515 NW 88th Street
Johnston, IA 50131
- 23 05/28/04 **Data Builder, Inc.**
Approved 6/24/04 Erich Lemke, President
6000 Grand Avenue
Des Moines, IA 50312

24 06/17/04 Approved 6/24/04	Silver Beacon Media LLC Ken Yager, CFO/COO P.O. Box 482 Bettendorf, IA 52722
25 09/29/04 Withdrew 10/04	NLG Investors,LLC James T. Campney, Manager 1444 NW 124 th Court Des Moines, IA 50325
26 11/16/04 Approved 12/17/04	Polymer Pipe Technology, LLC Daniel Ochylski, CEO 200 East Grand Avenue, Suite 390 Des Moines, IA 50309
27 11/16/04 Approved 12/17/04	Star Pack Industries, LLC David Abbott, Interim CEO c/o NewVentures 130 West Second Street Davenport, IA 52801
28 12/08/04 Approved 12/17/04	Iowa Commitment Fund, LP Gregg Barcus, President 6000 Grand Avenue Des Moines, IA 50325
29 02/24/05 Approved 3/25/05	CMNET Incorporated Dr. Abir Qamhiyah 2501 North Loop Drive, Suite 1606A Ames, IA 50010
30 05/05/05 Approved 6/30/05	Mob Shopper, LLC Craig Wilson, President New Ventures Center 331 West Third Street, Suite 100 Davenport, IA 52801
31 05/20/05 Approved 6/30/05	Spot Trac, Inc. Richard Marriott, President 300 Walnut Street, Suite 211 Des Moines, IA 50309-2258

- 32 06/15/05 **BioProtection Systems, Inc.**
Approved 6/30/05 Carl Langren, Chief Financial Officer
2901 South Loop Drive, Ste 3900
Ames, Iowa 50010-8646
- 33 10/10/05 **Solo Direct Connect, LLC**
Approved 2/8/06 Andy Tyrrell, President
3610 73rd Street
Moline, IL 61265
- 34 10/21/05 **StowMaster Inc.**
Approved 1/9/06 Matt Larson, President
209 N. Western Street
Lake Mills, IA 50450
- 35 11/07/05 **Walker Steel Frames Homes, Inc.**
Tabled 12/16/05 William Walker, CEO
Denied 3-31-06 1417 280th Street
Salix, IA 51052
- 36 11/08/05 **Blue Sky Creamery, Inc.**
Approved 12/16/05 Thomas J. Paskach, President & CEO
1323 XB Place
Boone, IA 50036
- 37 11/21/05 **Freedom Fuels, LLC**
Approved 12/16/05 Dale W. McBride, Treasurer
P.O. Box 356
Hampton, IA 50441
- 38 11/30/05 **Rock River Capital, LLC**
Approved 12/16/05 Bruce Jennings, Chair
1302 S. Union Street
Rock Rapids, IA 51246
- 39 12/31/06 **Dynamic Broadband Inc.**
Approved 3-31-06 Mike Brown, President
2750 1st Avenue NE, Suite 200
Cedar Rapids, IA 52402

- 40 2/10/06 **Absolute Energy, LLC**
Approved 3-31-06 Rick Schwarck, President
205 West 4th Street, PO Box 265
St. Ansgar, Iowa 50472
- 41 2/24/06 **Raccoon Valley Biodiesel, LLC**
Approved 3-31-06 Willis “Bill” Strawn, Project Coordinator
303 East Lakeshore Drive
Storm Lake, Iowa 50588
- 42 2/27/06 **LXI Enterprise Storage LLC**
Tabled 3-31-06 Nancy Oliver, CEO
and 100 First Street N.W. Suite 200
Tabled 6-8-06 Mason City, Iowa 50401
Denied 9-22-06
Approved 11-1-06
- 43 3/16/06 **Security Coverage, Inc.**
Rejected 3-31-06 Robert O’Dell, President & CEO
230 2nd Street SE, Suite 212
Cedar Rapids, IA 52401
Resubmitted 5/31/06
Tabled 6-8-06
Approved 9-22-06
- 44 4/07/06 **Wholesome Harvest**
Tabled 6-8-06 Wende Elliott, President
Approved 6-19-06 PO Box 277, 25623 – 710th Ave.
Colo, IA 50056
- 45 4/17/06 **Homeland Energy Solutions, LLC**
Approved 6-8-06 Pat Boyle, V.P. Project Development
P.O. Box 90
Cresco, IA 52136
- 46 4/27/06 **Future Health Inc.**
Approved 6-8-06 Dr. Steven J. Kraus, President and CEO
513 North Main Street
Carroll, IA 51401

- 47 5/22/06 **Western Iowa Growth Fund**
Approved 6-8-06 Rick Hunsaker, Manager
c/o Region XII COG, PO Box 768
Carroll, Iowa 51401
- 48 5/30/06 **East Fork Biodiesel, LLC**
Approved 6-8-06 Kenneth M. Clark, President
105 N. Hall Street, PO Box 21
Algona, IA 50511
- 49 7/27/06 **The Perfect Circle Corporation**
Approved 9-22-06 Kevin Dolphin, CFO
103 E. State Street, Ste 619
Mason City, IA 50401
- 50 7/31/06 **Verg, LLC**
Tabled 9-22-06 William Staib, President & CEO
Approved 11-1-06 2343 Wickham Circle
Coralville, IA 52241
- 51 10/12/06 **Edecen Financial Services LLC**
Tabled 12-21-06 Steve Iseminger, Managing Partner
Denied 03-30-07 300 Reed Street, PO Box 105
Akron, IA 51001
- 52 11/07/06 **MVP Holdings, LLC**
Denied 12-21-06 Jim Nodland
1941 Highway 86
Milford, IA 51351
- 53 11/14/06 **ezPay, LLC**
Approved 12-21-06 John P. Trickel, Chief Executive Officer
5271 Merle Hay Road
Johnston, IA 50121
- 54 12/19/06 **Northern Bio Energy, LLC**
Approved 12-29-06 Ron Hickman, CEO
4720 Mortensen Road, Suite #105
Ames, IA 50014

- 55 01/09/07 **Iowa Lakes Capital, LLC**
Approved 03/30/07 Bruce Tamisiea, Chairman
1900 Grand Avenue North, Suite E-12
Spencer, IA 51301
- 56 01/17/07 **Maple River Energy, LLC**
Approved 03/30/07 Delayne Johnson, Manager
204 East First Street, Box 230
Holstein, IA 51025
- 57 03/09/07 **Further Fuels, LLC**
Approved 03/30/07 Rick Schwarck, Chairman
520 S. Pierce, Suite 202
Mason City, IA 50401
- 58 03/23/07 **Future Energy, LLC**
Tabled 03/30/07 Kevin Rasmussen, President/Chairman
Approved 04/17/07 407 Main Street – PO Box 367
Dakota City, IA 50529
- 59 04/04/07 **AlphaGen Materials Technology, Inc.**
Approved 06/26/07 Donna Rice Executive Administrator
812 West 9th Street
Vinton, IA 52349
- 60 07/12/07 **RENEW Energy – Briq. Systems**
Approved 09/26/07 Brad Cole, Chief of Sales
13931 Yale Avenue
Plainfield, Iowa 50666
- 61 08/22/07 **RDA America, LLC**
Approved 09/26/07 Ron Saak, President
602 8th Street, Ste 4
Grundy Center, IA 50638
- 62 08/23/07 **Iowa Seed Fund LLC**
Approved 09-26-07 Curtis R. Nelson, Member
230 2nd Street SE, Ste. 212
Cedar Rapids, IA 52401
- 63 07/26/07 **Camp Marketing Services, LLC**
Approved 09-26-07 dba Camp Registry
Donald W. Myers, President & Managing Member
629 Jewel Drive
Ames, IA 50010

- 64 11-27-07 **VIDA Diagnostics Inc.**
Approved 12-18-07 John Garber, CEO
Technology Innovation Center
100 Oakdale Campus, Suite 219
Iowa City, IA 52242
- 65 11-28-07 **Red Rock Renewables, LLC**
Approved 12-18-07 Keith Roorda, Chairman of the Board
1002 Old Highway 5
Pleasantville, IA 50225
- 66 12-06-07 **North Iowa Venture Capital Fund II, LLC**
Approved 12-18-07 Tom Putnam, Associate Director
500 College Drive
Mason City, IA
- 67 12-18-07 **Apple Valley Osage, LLC**
Denied 01-02-08 Terry Cobb, President
5095 South Short Drive
Clear Lake, IA 50432

ICIB APPLICATIONS LOG – VENTURE CAPITAL

<u>Date Received</u>	<u>From</u>
1-V 05/15/03 Approved 6/9/03	AAVIN Equity Partners I, LP James Thorp, Manager 118 Third Ave. S.E., Suite 630 Cedar Rapids, IA 52401
2-V 08/20/03 Tabled 10/31/03	North Iowa Venture Capital Fund, LLC Robert H. Lembke, President North Iowa Area Community College – John Pappajohn Entrepreneurial Center 500 College Drive Mason City, IA 50401
3-V 12/12/03 Approved 12/18/03	Iowa First Capital Fund, LP Dennis Wangeman 222 Third Ave. SE, Suite 12 PO Box 607 Cedar Rapids, IA 52406-0607
4-V 09/13/04 Approved 09/30/04	WestWind Partners, LLC Thomas Glenn Rotherham, Senior Vice President 249 Research Parkway Davenport, IA 52806
5-V 09-29-04 Approved 12/1/04	NLG Investors, LLC James T. Campney, Manager 1444 NW 124 th Court Des Moines, IA 50325
6V 09/07/96 Approved 9/22/06	Iowa First Capital Fund II, LP Mark J. Drish, Member of General Partner 222 Third Avenue SE, Suite 12 PO Box 607 Cedar Rapids, IA 52406-0607
7V 11/27/06 Approved 12/21/06	NLG Series “C”, LLC James T. Campney, Manager 1444 NW 124 th Ct. Des Moines, IA 50325
8V 01/09/07 Tabled 03/30/07	Iowa Lakes Capital, LLC Bruce Tamisiea, Chairman 1900 Grand Avenue North, Suite E-12 Spencer, IA 51301